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HRI Food Service Report-Bali, Indonesia

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Report Highlights: The paradise island of Bali - with its rich culture, scenic beaches, and tropical landscape - is by far Indonesia's most popular tourist destination. As Indonesia's top tourism gateway, Bali annually hosts more than 1 million foreign and domestic tourists. Projections are that tourist arrivals will double to 2 million by 2002. Bali is also a distribution hub to many islands in East Indonesia and a major site for food processing. Best market prospects include frozen meat & poultry products, frozen french fries, fresh fruit, bakery ingredients, canned fruits & vegetables, snack foods, beverages, wines, and Mexican products. U.S. suppliers of these products are encouraged to attend Food, Hotel & Tourism Bali 2000 at the Bali International Convention Center on March 2-4, 2000. Contact information is under Section IV.

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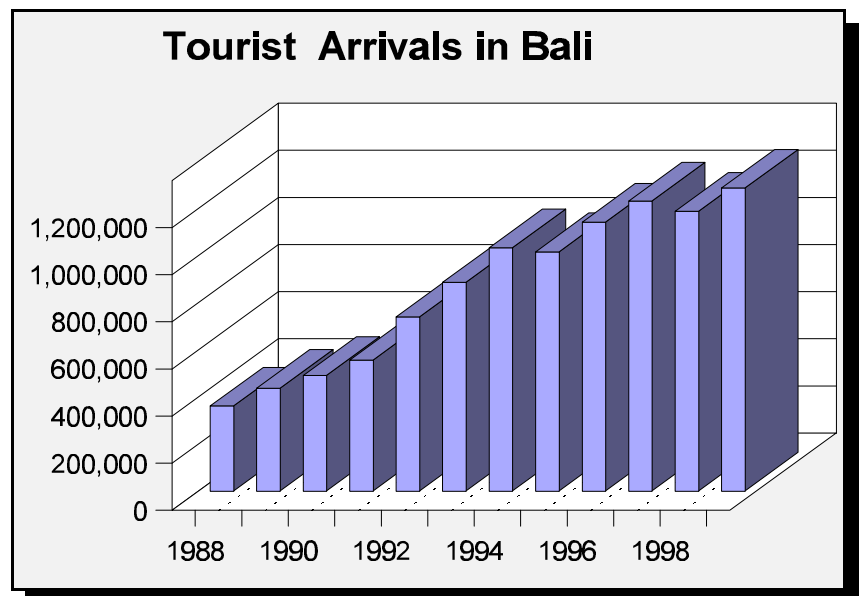
SECTION I. MARKET SUMMARY

Indonesia is an archipelago of over 205 million people, making it the world's fourth most populous nation. From 1970 to 1996, Indonesia's annual Gross Domestic Product averaged 7 percent, resulting in a tenfold increase in per capita GDP. Beginning in late 1997, however, Indonesia experienced a dramatic collapse in its economy, culminating in an GDP contraction of over 13 percent in 1998. In 1999, the Indonesian economy has begun a modest recovery. The recovery process has been boosted by the relatively peaceful democratic election process that culminated in the naming of a new president in October, making Indonesia the world's third largest democracy. Assuming continued economic growth, U.S. agricultural exports should once again approach \$1 billion by 2002, with exports of consumer-oriented products again approaching \$120 million.

Of the more than 17,000 islands that comprise the archipelago, the island of Bali is perhaps the best known to foreigners. This island of paradise - with its rich culture, scenic beaches, and tropical landscape - is by far Indonesia's most popular tourist destination. As Indonesia's top tourism gateway, Bali annually hosts more than 1 million foreign and domestic tourists. This economic reliance on its dollar-earning tourism industry meant that Bali largely escaped the economic crisis that affected most of the other 25 provinces in Indonesia. During much of the crisis period over the past two years, Bali has maintained its hotel occupancy rates, averaging 60 percent during normal periods and up to 90 percent during the peak period from June-September.

Tourist arrivals from Asia and the Pacific comprised the largest segment of tourists between 1993 and 1997. During this period, the average annual growth rate from this region was 13.5 percent. Australia provides the largest number of visitors direct to Bali, followed by Japan and Taiwan. Tourist arrivals from Europe comprised the next largest segment of tourists between 1993 and 1997. The top European markets are Germany and the United Kingdom. The United States is the sixth largest market, and 1997 saw nearly 50,000 U.S. tourists in Bali.

The majority of tourist arrivals originate from points where sophisticated products are in demand. It stands to reason, therefore, that they expect a similar level of quality and availability of food and beverage products to maintain their quality of lifestyle while traveling.



SECTION II. MARKET STRUCTURE

Overview of Tourism Industry to Indonesia and Bali

Overall, inbound tourists to Indonesia are expected to reach an all-time high of 6.0 million in 1999 with 1.2 million to Bali. The government projects tourism will replace oil & gas as Indonesia's largest foreign exchange earner by 2002, with a projected total of \$13 billion. Hotels - including those in Bali - adjusted to the crisis by

replacing most of their expatriate management staff with local Indonesian graduates from tourism schools. Restaurants and hotels complain about the lack of choice for quality products, inconsistent supply, high prices, and lack of staff knowledge, experience and training. Importers complain about variable pricing at the port in getting product through customs and lack of product knowledge in variety, handling, and distribution.

While all Asian tourist destinations have been adversely affected by regional economic downturn, certain markets have rebounded faster than others. According to one hotel chain, Bali is on the top of the list in Asia as a “hot” market, ahead of Phuket, Tokyo, Seoul and Bangkok. Investors recognize that these markets are likely to experience a mild recovery and are willing to invest in that expectation. An executive from the hotel chain recently stated that 3- and 5-star hotels are targets for potential purchase and deals already were being advanced in Bali. Bali’s tourism industry accounts for 30 percent of its GDP with approximately a 10 percent average annual growth rate.

Hotels & Resorts

As of 1997, there were 895 total accommodation facilities in Bali, with 28,464 rooms. Numerous international chain hotels have a presence in Bali. Those with U.S. affiliation include Holiday Inn, Hyatt, Hilton, Sheraton (Starwood), Ritz-Carlton, Four Seasons/Regent, and Inter-Continental. While boutique and star-rated hotels make up the smallest segment of total hotel units, they represent the sector with U.S. dollar income (in hotel room rates), adequate purchasing power, and demand for imported products.

The 1998-1999 economic crisis resulted in marginal drops in average occupancy rates but a 30 to 70 percent decline in average room rates, which, for star-rated hotels can normally run between US\$35 and \$600. Yet, when surveyed, hotels said guests have not changed their room nor food and beverage consumption habits. It is noted that more guests, especially those of Asian origin, are dining outside the hotels, where meal checks are lower. Surveyed five-star hotels reported food costs increased only 2 percent in 1999, up from 31.5 percent of operating expenses in 1998. The ratio of food & beverage income vs room revenue was reported at 48 percent to 52 percent.

Among the most sought after imported food items in Bali, highlighted by those 5-star hotels surveyed, are gourmet and specialty items (caviar, cheese), smoked salmon, fresh fruits, vegetables, single portion packages of condiments, jams, alcoholic beverages. Dairy product imports are dominated by Australian and New Zealand. Recently, due to the economic crisis, locally produced dairy products have expanded, including feta cheese, cottage cheese, mascapone, goat cheese, yogurt, etc. The hotel industry has downgraded cheese supplies from European to Australian or Australian to local, as more economical substitutes.

Restaurants

Stand alone restaurants catering to tourists and expatriate residents vary widely in their fare. Those offering local food have no demand for imports. Those catering to international menus have demand for limited import products, which increasingly are being replaced with local or second quality import substitute items, due to a competitive market environment. Franchise restaurants are excluded from this trend, as their specifications are dictated by corporate standards.

Up-market restaurants catering to tourists report about a 50/50 split in food vs beverage revenues. While 60 to 70 percent of food products were imported in 1997, that dropped to 20-50 percent in 1998 and 1999. Among

imported products, Australian and U.S. suppliers dominate, especially for items such as beef, pork, dairy and french fries. As with hotels, restaurants have substituted local products or second quality imports where possible.

Surveyed restaurateurs expressed interest in U.S. meat, french fries, tortillas, sauces, corn oil and poultry. For franchise restaurants direct contact with the corporate offices and promotion with product information and introduction would result in better sales. More franchise operations are expected in the future on Bali, based on the success of existing outlets. U.S. beef and veal currently are regarded as premium products and have potential for high-end hotels and restaurants. Recent surveys indicate that some U.S. processed meat can compete with local processed meat, based on price, quality and packaging.

While tourists tend to frequent fast food outlets in Bali due to international brand recognition, there is a heavy dependence on these outlets by local customers. This is evidenced by menu variations to include rice and focus more on chicken than beef, as these elements are staples of the local diet.

Institutional, Other

Institutions: Health care, prisons, schools, and other traditional institution consumers are not using imported goods in Bali.

Tourism University: The tourism university, *BPLP*, located in Nusa Dua, provides venues for seminars and cooking competitions.

Food Processing: The manufacturing sector does use imported ingredients, i.e.: meat for processing, bakery mixes and ingredients (dried fruits, nuts), ice cream ingredients, yogurt production, etc.

In-Flight Catering: Aerowisata Catering Service supplies in-flight meals at Bali's Ngurah Rai Airport for domestic and international carriers. There are potential import components in these meal preparations.

Conferences: Prior to May 1998, conference vs independent traveler occupancy was 80 percent:20 percent. Since May 1998, the ratio of conventions dropped to 30 percent vs 70 percent due to social unrest in the Indonesian election process. With the election of a new president in October, expectations are for a quick recovery. Conferences and incentive groups generally make their own special event menus, often with demands beyond routine hotel needs.

U.S. Navy: At least three U.S. Naval vessels with 5,000+ crew visited Bali in 1998-99. While only pre-approved local distributors may supply the ships, these visits create peak demand on U.S. franchise outlets visited by seamen, because of U.S. brand name recognition. These sailors also provide additional hotel room nights.

Cruise Ships: The international cruising season for Indonesian waters is November to March. Bali is generally a port of call on cruises through the region. In the 1998-99 season, four ships monthly called at Bali, with passenger capacities of 600 upward. The 120-passenger Oceanic Odyssey was based in Bali until June 1999, when it shifted its home base to Darwin, Australia. Several 16 to 32 passenger charter and scheduled departure motor and sailing vessels are based in Bali for tourism Bali Benoa Yacht Marina houses transient yachts and a few Bali-based vessels.

Distribution Hub: Bali is an import gateway for islands eastward, particularly Lombok and Sumbawa, which have significant tourism and foreign investment industries with hundreds of U.S. and Australian expatriate employees.

Overview of Indonesian Distribution System

Due to the widespread and diverse nature of the country, involving hundreds of islands, this system is complex. In many cases, the infrastructure is insufficient, especially outside big cities and Java island. The ability to move frozen and refrigerated products is limited. There are approximately 10 national distributors who service the whole country and numerous agents/distributors with a more local reach. There are hundreds of wholesalers and millions of retailers.

A recent World Bank study indicated that inadequate ports were the single largest and most consistent complaint in every province and with all levels of the distribution system. The most frequent criticisms cited in the report concerned shallow drafts in ports requiring small ships and inadequate loading and unloading facilities resulting in frequent congestion. Also cited by distribution firms are the unreliable shipping schedules and inadequate number of small ships serving Eastern Indonesia, particularly during bad weather periods - which results in frequent shortages and leads firms to hold higher than desired inventories, with higher costs.

Imported products that enter the Indonesian market often move to a distributor or agent, who in turn, sells them directly to modern retail outlets. Delivery of the products may be direct to stores or to the warehousing facilities of the retailer. Only a few retailers buy directly from foreign suppliers and assume responsibility for the logistics function. Major food processors tend to buy directly while smaller operations tend to buy through local agents.

The trade in fresh fruit differs from that of other consumer-ready food products. Fresh fruit imports are dominated by trading houses that specialize in fruit, whereas other food items are widely traded. For example, it is not unusual for one importer to carry such items as meat, poultry, french fries, and confectionary ingredients and deliver them directly to the retailer. On the other hand, fresh fruit will change hands several times before reaching the consumer, usually at the wet market or curbside fruit stands.

Restaurants and retailers alike bitterly complain about the poor distribution system. Their complaints center around getting a consistent supply of quality food products. Sometimes distributors sell outdated products that they purchased inexpensively. Or a frozen product was not stored correctly and has been refrozen. All kinds of things happen to products left in the hot, humid and insect infested storage facilities. Another complaint is that the importer/distributor underestimated demand and has no supply of a particular product. In addition, they complain about the large number of distributors they must deal with since most of the distributors carry only a handful of products.

Bali itself has no adequate cargo seaport, therefore, imported products arrive via Surabaya and are transported overland (+/- 15 hours) and/or by feeder shipping service to Bali. Bali importers prefer 20 foot containers because ferry service between Java and Bali islands can not accommodate 40 ft. containers. However, 40 ft. containers can be imported and brought to Bali through the feeder service from Surabaya to Bali's Benoa Harbor. Given the constraints of the distribution system, surveys estimate that a significant volume of perishable products are air-freighted into Bali. This mainly includes beef and fresh produce from Australia and New Zealand.

In general, food products are imported only by licensed importers and distributed to distributors, warehouses, wholesalers and directly to catering, food service and retail operators. Importers supplying Bali may be located in Jakarta, Surabaya, or directly in Bali. Bali has not yet received direct foreign investment in wholesale and retail sectors. The foreign investment concept is relatively new and the principle companies are focused on the island of Java as the entry point before moving to outer islands, because 60 percent of Indonesia's population resides on Java.

SECTION III. COMPETITION

In attempts to reduce costs in 1999, hotels began substituting local products or second quality imports where possible for products which previously were first quality imports. Meal portions also were reduced. The purchasers' recognize the quality of U.S. products but their major concern is price. U.S. products could find significant opportunity if they are shipped direct to Bali and competitively priced.

Beef imports are led by Australia, New Zealand and then the United States. Bali consumes about four metric tons of imported meat weekly: beef cube roll, tenderloin, strip loin, topside; lamb legs, racks and loins. U.S. frozen meat prices remain higher than chilled Australian products. In mid-1999, U.S. frozen meat import prices were 43 percent higher than chilled Australian meat imports. The market for forequarters, secondary frozen meat cuts and offal, primarily supplied from Australia and New Zealand, is about five containers monthly.

In a separate survey recently conducted at star-rated hotels in Bali, a Jakarta-based pork supplier found that local hotels strongly rely on local supplies for pork products but are enthusiastic to do business with new suppliers. Of respondents, 11 percent relied on import suppliers. Among them, 4- and 5-star hotels reported a pork product consumption averaging 2.17 kg per room, while 2- and 3-star hotels and boutique hotels reported monthly consumption of pork products averaging 1.43 kg per room.

The primary competition for U.S. food products come from the following countries:

- Australia: meet, dairy, fresh seafood, fresh produce; fresh fruit is complimentary to U.S. fruit due to opposite seasons, wines
- New Zealand: meat, dairy, seafood
- Europe: meat, dairy, pasta, canned vegetables, wines

SECTION IV. BEST PRODUCT PROSPECTS FOR U.S. FOOD PRODUCTS

A. Products That Are Present in the Market:

- Poultry: The quality of local chicken remains acceptable to most of the HRI industry. It should be noted, that the devaluation of the local currency in the economic crisis placed a burden on the local chicken industry due to the high cost of imported chicken feed. The quality of local duck is not acceptable to the HRI customers, giving good opportunity for U.S. duck products. Turkey is not locally available. Despite the proximity to Australia, Australian poultry is more expensive than U.S. poultry, opening further opportunity.
- Frozen French Fries: French fries constitute a large portion of the U.S. product imports, for example, to

Bali. Some major hotels and restaurants use licensed importers for container loads. One, for example, orders one 20 ft. container every three months and, during peak months (September-October) a 40 ft. container. A major franchise restaurant with three outlets on Bali reportedly imports an estimated 30 tons of french fries annually. One Bali importer estimated the HRI industry demands about 10 tons of french fries monthly (shoestring, crinkle and wedge).

- *Fresh Fruit:* U.S. fresh fruit is complimentary to Australian fruit due to opposite seasons. The market prefers U.S. fruit due to quality consistency. Total fresh fruit imports to Bali are estimated at 36 containers a year, with the United States maintaining a 40 percent market share. Of these imports, 50 percent are apples, 30 percent oranges and 20 percent grapes.
- *Bakery Ingredients:* Hotel and local bakeries are popular, with an increasing demand for high-quality dried fruits & nuts, along with whey and specialty flours.
- *Canned Fruit & Vegetable:* Certain brands, such as retail packed SW and Del Monte, have gained market share due to long-time market presence. This provides opportunity for bulk pack products. As the market recovers from economic crisis and continues to grow, demand for this product will increase.
- *Snacks:* With tourist arrivals to Bali growing, retail and hotels seek snack items. U.S. snacks have excellent opportunities for placement in hotel room mini-bars.
- *Beverages:* Opportunities are open for mineral water, fruit juices, soda and concentrated fruit juice.
- *Mexican Products:* Mexican products are gaining popularity among HRI customers due to lower cost and versatility. There are some efforts toward local production but quality is not yet at international standards.

B. Products Not Present in the Market in Significant Quantities but Which Have Good Potential

- *Wine & Spirits:* U.S. exports of wine are constrained by Indonesia's restrictive import system for wine and spirits. Restrictions include a quota system that is inconsistent with Indonesia's commitments under their WTO Country Schedule, plus tariffs and taxes that exceed 270 percent of landed cost. Despite these constraints, European and Australian wines are popular with the conspicuous absence of California or other U.S. wines. Local tourism officials have stepped up their efforts to discuss removal or reductions in these constraints under the new government. For a more detailed assessment of Indonesia's wine market, see the report published by ATO Jakarta entitled: *Market Brief - Indonesian Wine Imports*. See Section V for information on how to obtain this report.

C. General Recommendations

There is no definite course of action that will guarantee successful entry into the Bali market, due to the various factors involved in establishing new products in the market. It is important for product manufacturers or exporters to survey the market potential for their respective products. It also is important to liaise with a company, either an importer and/or distributor, which can act as dedicated local representative. A local representative should provide market knowledge, up-to-date information on import regulations, sales contacts with potential customers and maintain ongoing brand/product representation in the market.

Food, Hotel & Tourism Bali 2000 is the second International Exhibition and Conference for Equipment, Food, Beverages and Services to support Indonesia's tourism and hospitality industries. It will be held March 2-4, 2000, at Bali International Convention Center, Nusa Dua, Bali. Those U.S. suppliers interested in the Bali market should seriously consider attending this show. Organizer: PT Pamerindo Suana Abadi Indonesia, Tel: (62-21) 316-2001, Fax: (62-21) 316-1983/4, E-mail: pamindo@radnet.id

D. Exporter Business Tips:

- Do your homework in terms of familiarizing with import regulations and assessing market conditions/opportunities for any particular products.
- Understand methods of doing business in Indonesia/Bali.
- Work closely with established importers/distributors to avoid unnecessary cost of doing business in the region.
- Know your partner (importer/distributor) and secure commitments in developing the market for your products.
- Local representation and product information through regular promotional activities, will result in better market penetration, brand awareness and product sale.
- U.S. exporters or distributors could impact the Bali market with promotion, involvement with the food service industry to gain recognition and an image of long-term commitment to the market.
- Seminars by export cooperatives and mini-food shows are effective promotional tools in this market.

SECTION V. POST CONTACT AND FURTHER INFORMATION

The U.S. Agricultural Trade Office in Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exporters and entry to the Indonesia market. Questions or comments regarding this report should be directed to the U.S. ATO in Jakarta at the following address:

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Mail sent directly from the United States may be delivered via the following Fleet Post Office address:

Agricultural Trade Office
American Embassy, Jakarta
Box 1, Unit 8129
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Please contact our home page for more information on exporting U.S. food products to Indonesia, including *Indonesia: Exporter Guide; Food Processing Sector Report: Indonesia; The Retail Sector Report: Indonesia; Market Brief- Indonesian Wine Import; Market Brief: Indonesian Fresh Fruit Imports; and Market Brief- Indonesian Meat Processing*. As of January 2000, the following reports are available: *The HRI Food Service Sector Report: Indonesia, Market Brief-Indonesian Bakery Industry, Market Brief - Indonesian Beverage Industry*.

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

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